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Outside Experts Agree: Clinton's Medicare Proposal a Gimmick

The Big Lie Part II: Clinton's Medicare Proposal

Lies are like rhetorical rabbits — they quickly breed more. So it is with President Clinton's budget. As we have pointed out before with regard to his Social Security plan, Clinton's budget is laced with double-counting that treats IOUs like real money. He then compounds this sham by crediting interest to what was in fact a phony payment in the first place.

Clinton perpetuates the same hoax on Medicare. No wonder outside experts from both the General Accounting Office (GAO) and Congressional Budget Office (CBO) have unmasked the President's plan as being meaningless in terms of either the budget or the Medicare program itself. In short, Clinton's Medicare proposal is an attempt to credit "interest" to dollars he doesn't have, to a payment he doesn't make, in order to claim an effect that doesn't occur.

If anything, Clinton's Medicare gimmick is a worse fraud than his Social Security one. This is because Medicare's fiscal condition is even more precarious than Social Security's. Just recently Medicare ran a deficit. Over the next several years, CBO projects that Medicare will only run slight surpluses — $69 billion through 2007. Clinton would not only permanently institutionalize a bailout situation but undercut the impetus for real reform that is immediately needed.

Clinton's Claims

President Clinton claimed in his State of the Union address: "Tonight, I propose that we use one out of every $6 in the surplus for the next 15 years to guarantee the soundness of Medicare until the year 2020." What Clinton's claim actually does is to set aside $700 billion — 15 percent of the $4.5 trillion budget surplus that he claims will accrue over the next fifteen years — and then credit to this another $300 billion in interest payments. While the rhetoric may sound good, the reality does not measure up — for three reasons:

1. Clinton doesn't have the money to implement his plan;

2. Clinton's claims that he has the money are based on IOUs and phony numbers; and

3. Even if Clinton's claims were true, his plan still wouldn't help Medicare.

Problem One: Clinton Doesn't Have the Money

As we have shown before, Clinton doesn't have the money to pay for all his promises. In fact, if all Clinton's promises are added together, he's overdrawn by $2.3 trillion as the chart below shows. Clinton claims a $4.5 trillion budget surplus — however, $2.3 trillion of that amount is already Social Security's money. That leaves him with just $2.2 trillion of non-Social Security surplus to work with over the next 15 years. Clinton then claims that he makes another $2.8 transfer to Social Security (see RPC papers: "Clinton's Social Security Proposal: Double-Counting Plus Interest," 2/18/99; and "Double-Counting for Dummies," 2/3/99), spends another $1.0 trillion for additional government programs ($500 billion) and USA retirement accounts ($500 billion), and transfers another $700 billion to Medicare's Part A trust fund.

Clinton's 15-year Budget Balance Sheet	
Total Budget Surplus	**$4.5 trillion**
Social Security Surplus	**$2.3 trillion**
Non-Social Security Surplus	**$2.2 trillion**
	minus
Clinton's Big-Spending Proposals	**$1.7 trillion**
(Medicare: $700 billion,	
USA accounts: $500 billion,	
Government spending: $500 billion)	
Remaining Surplus	**$0.5 trillion**
	minus
Clinton's Social Security Payment	**$2.8 trillion**
($2.1 trillion to trust fund and	
$0.7 trillion in government investment)	
Final Balance	-$2.3 trillion

All this promising, spending, and transferring leaves Clinton $2.3 trillion short. One question worth asking: Is Clinton raiding Social Security to pay for his claimed $700 billion Medicare transfer?

Problem Two: Clinton Doesn't Use Real Money

Since Clinton doesn't have the money to spend in the first place, it shouldn't be surprising that he doesn't use real money to pay for his claimed Medicare promise. If such a transfer involved real money it should leave some trace on the surplus, right? However, as CBO points out in a March 11, 1999, letter responding to questions from Senate Budget Committee chairman Pete Domenici: *"Because such a transfer is intergovernmental and is made to an on-budget trust fund, it would affect neither the total nor the on-budget surplus."*

What is occurring is nothing but a bookkeeping trick whereby Clinton credits $700 billion in IOUs to the Medicare trust fund but does not actually devote so much as a dime to Medicare's actual budget. In fact, he could have carried out this gimmick to infinity by crediting an unending sum to the trust fund and still not have had to pay a penny for his promise.

Problem Three: Even If Clinton's Claims *Were* True, It Wouldn't Help

As Clinton already knows but refuses to admit, even if his $700 billion Medicare claim were true — if he had the money or had used real money — it still wouldn't help Medicare. How can this be? Because of the way the Medicare program itself works.

Medicare is a pay-as-you-go system — just as is Social Security. In contrast to claims that it is a pre-funded program (where an individual's future benefits are pre-funded by current contributions), Medicare uses current tax income (payroll taxes equal to 2.9 percent of an individual's earned income) to pay current benefits. In fact, even when Medicare doesn't need all current payroll tax receipts to pay for current benefits, it does not actually hold on to the surplus. By law it cannot, but must instead turn the surplus cash over to the Treasury which returns special government securities to the trust fund.

Thus Medicare, even in conditions when it runs a surplus, cannot make use of actual cash. So how then, even if true, could Clinton's claimed $700 billion infusion help Medicare's future solvency problem? It couldn't. Medicare's problem is that future payroll taxes will not be able to pay for future benefits (this could begin happening in a significant way as early as ten years from now) — thus the very basis of this pay-as-you go system will be broken. Current money, as Clinton claims to be giving it, even if it were true, will do nothing to make up for Medicare's future shortfall.

As the non-partisan CBO and GAO state in regards to Clinton's Medicare claim:

- ***"It has no effect on the current and projected cash-flow deficits that have faced the HI program since 1992 — deficits that taxpayers will continue to finance through higher taxes . . ."*** Comptroller General, David Walker, prepared testimony to the Senate Finance Committee, March 10, 1999.

- ***"[T]he transfer would do nothing to address the underlying problem: rapid growth in spending for Medicare . . ."*** Dan Crippen, CBO Director, prepared testimony to the Senate Finance Committee, March 10, 1999.

Clinton's Medicare Claim: Three Problems and No Solution

Clinton claims to give $700 billion to Medicare; however, there are three fundamental problems with his claim. First, Clinton doesn't have the money to keep his promise in the first place. Tallying up Clinton's promises leaves the President $2.3 trillion short of being able to keep them all. Second, Clinton doesn't attempt to use real money to keep his promise to Medicare either. Clinton is only claiming to put more IOUs into Medicare's Part A trust fund — paper promises that don't cost him a cent. Third, even if Clinton's Medicare claim were possible and were real, it still wouldn't help the Medicare program. That's because Medicare operates by using current payroll taxes to pay current benefits — thus money now, even if Clinton had it, delivered it, and budgeted for it, wouldn't help Medicare meet its commitments tomorrow.

The final problem is that Clinton and his advisers know the truth behind each and every one of these fatal flaws to his Medicare claim. Sadly, none of these deterred them for one second from making a promise that they can't keep. Rather they have sought them out and resorted to demagoguery to defend them (see RPC paper: "Democrats Resurrect 'Medi-Scare' Tactics," March 3, 1999) — as when they state that Republican tax cuts proposals preclude the Clinton Medicare claim. In fact because Clinton's Medicare is a gimmick from start to finish that doesn't use a dime of real money, the Clinton Medicare proposal could be perpetrated an infinite number of times without in any way precluding the real tax cuts Republicans seek.

Instead of using the energy and ingenuity exhibited in denying these three real problems, they could have used it to solve Medicare's real problems — something the President agreed to when he endorsed the Bipartisan Medicare Commission in 1997. The fact that President Clinton would rather busy himself with constructing a complicated gimmick in order to make a phony promise, rather than actually work for a real solution, is the biggest problem of all.

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